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SUBJECT: GERMAN UNEMPLOYMENT TWICE AS HIGH AS EXPECTED IN JANUARY

¶1. Summary: The global economic crisis has hit the German labor market with the speed and power of a Tsunami, exceeding even the most pessimistic forecasts of many economists. German unemployment rose almost twice as much as forecast in January as the economic downturn spread to industries from automotive to software to banking. Whether the German government's second economic stimulus package worth 50 billion euros (\$66.5 billion) over the next two years can offset the expected economic contraction is uncertain. The extension of the short-time employment benefits program to 18 months might provide some cushion, but if the economy does not pick up during the second half of 2009, as many economists expect, the monthly news from the German labor market will go from bad to worse. End Summary.

¶2. Germany unemployment rose twice as high as expected in January, adding to the already negative news coming from all sides of the economy. In addition to the recession, very cold temperatures had a noticeable effect on outdoor occupations. The number of people out of work rose in seasonally adjusted terms by 56,000 to 3.27 million, after an increase of 18,000 in December. The adjusted jobless rate rose 0.1 percentage point to 7.8 percent. The politically more important seasonally non-adjusted unemployment figure (the one that makes the headline news) surged by 387,000 to 3.489 million, pushing the unemployment rate to 8.3 percent. This was third straight month-to-month rise and the sharpest increase in nearly four years. The head of the Federal Employment Agency, Frank-Juergen Weise, said the economic downturn had finally reached the labor market, as reflected in the three most important employment indicators: 1. rising unemployment, 2. declining employment subject to social insurance contributions, and 3. declining demand for labor.

¶3. The number of workers taking advantage of so-called short-time work benefit (Kurzarbeit) programs jumped to 404,000 in December, up by 240,000 from the previous month. However, the steep month-to-month increase was nevertheless a ray of hope that companies wanted to keep their staff on pay rolls. (Note: As part of its efforts to stimulate the economy, the German government has extended the *Kurzarbeit* program whereby it pays subsidies to companies if they keep their staff. The program is now valid for 18 months; the government hopes that the economic downturn will be over by then and companies will be able to resume normal operations.)

¶4. The sharp decline in the economy has also slowed employment growth and reversed the gains made in recent years as solid economic growth and labor market reforms helped to boost hiring. German employment hit a record 40.3 million in 2008, reaching the highest level since German unification in 1990. Since then, however, the global slowdown has become increasingly visible as reflected by a series of announcements about planned layoffs, canceled shifts, and production cuts by major companies such as Chemical Giant BASF and carmakers such as Volkswagen AG and BMW as they struggle to cope with the sharpest economic downturn since World War II. Equally concerning, the number of jobs paying into Germany's social security system dropped for the first time in three years, by 105,000.

¶5. More detailed statistical information for all of Germany is available at the Federal Employment Agency's website:
<http://www.pub.arbeitsagentur.de/hst/services/statistik>

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